COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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J. TYLER McCAULEY
AUDITOR-CONTROLLER

March 8, 2005

TO: Supervisor Gloria Molina, Chair
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **LOS ANGELES COUNTY FAIR ASSOCIATION AUDIT REPORT FOR THE YEAR ENDED DECEMBER 31, 2003**

In 1987, the County entered into a Ground Lease and Operating Agreement (Agreement) with the Los Angeles County Fair Association (Association) for the Association to use and develop the County Fairgrounds. The agreement requires the Association to pay rent to the County based on its gross revenues from the use of the Fairgrounds. We contracted with Conrad and Associates LLP (Conrad), to audit the rent paid to the County by the Association for the year ended December 31, 2003.

Conrad concluded that the Association owes the County additional rent totaling $43,269 for the year ended December 31, 2003. During the year under review, the Association contracted with Southern California Off-Track Wagering, Inc. (SCOTW) to provide off-track stabling and training of thoroughbred race horses. The Association received $1.2 million in reimbursements from SCOTW, but excluded the $1.2 million from its calculation of gross rent due the County. Conrad has determined that the reimbursements from SCOTW should be included in the calculation of gross rent as defined in the County's Agreement.

In addition, the Agreement states that if the additional amount of rent exceeds five percent of the total due, the Association may be responsible for the cost of the audit. Conrad has determined that the additional amount due ($43,269) is approximately fourteen percent of the total rent due for 2003. We discussed these matters with representatives from the Chief Administrative Office and County Counsel, and they are in agreement with Conrad's findings. Accordingly, the Chief Administrative Office will submit a bill to the Association for the appropriate amounts due.

Conrad also evaluated the status of the prior year's recommendations and noted that the Association needs to improve its controls over cash receipts. With the exception of the additional rent due the County (see attached response), the Association generally concurs with the audit findings.

If you have questions regarding the report, please call me or have your staff contact Terri Kasman at (626) 293-1121.

JTM:MMO:TK
Attachments

c: David E. Janssen, Chief Administrative Officer
Violet Varona-Lukens, Executive Officer
Public Information Office
Audit Committee
Los Angeles County Fair Association
Jim Henwood, President
Michael D. Seder, Vice President and Chief Financial Officer
Karen Furlow, Controller

COUNTY OF LOS ANGELES

Independent Accountants' Report
on Applying Agreed Upon Procedures

Lease Year 2003 – Chief Administrative Office
County Fair Association

For the period January 1, 2003
through December 31, 2003

CONRAD AND ASSOCIATES, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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Mr. J. Tyler McCauley
Auditor-Controller
County of Los Angeles
Los Angeles, California

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

On February 11, 1987, the County of Los Angeles (County) entered into a Ground Lease and Operating Agreement (Agreement) with the Los Angeles County Fair Association (Association) for the use and development of the Los Angeles County Fairgrounds. The Agreement requires that the Association pay rent to the County. The rent payable is calculated by using gross revenues derived from the use of the property and received by the Association during a lease year. To determine the annual rent, the Association prepares a "Year to Date County Lease Calculation" which summarizes the gross revenues received during that lease year and calculates the lease amount, in accordance with the Agreement.

We have performed the procedures enumerated below, which were agreed to by the County of Los Angeles, solely to assist County management in evaluating the Los Angeles County Fair Association's compliance with the Ground Lease and Operating Agreement and the First Amendment to Ground Lease and Operating Agreement (Amendment) (dated January 28, 2000) between the County and the Association for the period January 1, 2003 through December 31, 2003. This engagement to apply agreed-upon procedures was performed in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

SUMMARY OF RESULTS

The procedures performed and the results of those procedures are identified below in detail. The following is a summary of the more significant items noted as a result of those procedures.

- We determined that an additional amount of rent is due to the County in the amount of $43,269. There were some revenue reductions reported on the Lease Calculation that do not appear to qualify as revenue exemptions under the Lease Agreement. We also reclassified certain revenue accounts. The $43,269 is summarized as follows:

Reclassifying of certain revenue	$ (1,250)
Inclusion of certain advertising revenue	840
Inclusion of revenue for off track stabling	43,679
Additional amount owed the County as of June 10, 2004	$43,269

For additional details, please see item 7.

- Minor adjustments were noted regarding reported Weekend Event Net Revenues, however, there was no impact on the Association qualifying for the $400,000 rent credit.

- For the significant items identified in the previous report for the 2002 Lease Year, we ascertained the current status of these items. The internal control recommendation regarding cash receipts had not been implemented. However, Association expects procedures to be in place 30 days after June 9, 2004. The Association was not invoiced for the 2002 additional rent of $25 that was considered owed to the County.

Our procedures and findings are as follows:

COUNTY LEASE CALCULATION

1. We obtained a copy of the most recent Lease Agreement, dated January 20, 1988 and the First Amendment, dated January 28, 2000, between the County and the Association. We read the agreement and amendment to gain an understanding of the revenue categories to be included and excluded in gross revenues for the calculation of rent.

   We obtained a copy of the 2003 Year to Date Lease Calculation Schedule (Lease Calculation Schedule) that was prepared by the Association in April 2004 (Exhibit 1). We recalculated the information contained on the Lease Calculation Schedule to determine if the form was mathematically correct. We footed and cross footed all subtotals and totals and recalculated the rent payment for each revenue type.

   Results: We noted no exceptions as a result of our procedures.

2. We obtained a copy of the Association's 2003 trial balance for all revenue accounts. We compared total revenue reported on the Lease Calculation Schedule to the total revenue per the 2003 trial balance. We also compared all individual revenue line items on the Lease Calculation Schedule over $1,000,000 to the corresponding revenue accounts in the 2003 trial balance.

   Results: Total revenues per the lease calculation schedule and trial balance were $40,921,251 and $40,848,859, respectively. The $72,392 difference between the lease calculation schedule and trial balance pertained to revenue inadvertently included as part of the gross revenues on the lease calculation schedule. The amount was received from the County of Los Angeles Department of Public Works for reimbursement of costs incurred for the Fairplex Storm Drain Project. This amount was also excluded from the calculation of interim revenues. The Association properly accounted for this difference on the Lease Calculation Schedule.

3. We obtained the Association's 2003 Annual Report prepared by the Association's independent auditor, Grant Thornton, L.L.P., and compared total revenues per the audited financial statements to the gross revenues on the Lease Calculation Schedule.

Results: Total revenues per the financial statement and the lease calculation schedule were $56,324,762 and $40,921,251, respectively. The difference between amounts reported on the lease calculation schedule and the audited financial statement is summarized as follows:

Total revenues per audited financial statement	$56,324,762
Add:	
Grant revenue	72,392
Less:	
Hotel revenue	9,850,167
Barretts revenue	3,219,488
Grants and contracts	1,233,128
Interest revenue	187,673
Gain on interest swap	985,447
Total revenues reported on the Lease calculation schedule	$40,921,251

The reconciling items noted above appear to be in accordance with the Lease Agreement.

4. In accordance with the Agreement, the Association segregated Fair Revenue from Interim (non-fair) Revenue. The annual lease payment is calculated using 1% for fair revenues and 3.5% for interim revenues. We obtained an understanding of the methodology used in classifying Fair Revenues versus Interim Revenues on the Lease Calculation Schedule. The classifications are based on specific revenue accounts reflected in the trial balance. We selected all gross revenue line items over $1,000,000 and recalculated the portions allocated to fair revenue and interim revenue.

   Results: We noted no exceptions as a result of the above procedures based on the scope of the revenue items reviewed. However, we did come across some minor revenue reclassifications as explained in Step 7.

5. For the more significant gross revenue categories, we performed specific tests to ascertain whether selected revenue entries were in agreement with the appropriate supporting documentation and properly recorded in the trial balance (posted to the correct account). Our specific tests are described as follows:

   A. **Admissions** – We reviewed the Admissions, Parking and Carnival Revenue Report (Revenue Report), which summarized revenues for the entire Fair period of seventeen days. We agreed the summary revenue report to the daily Revenue Reports. In addition, we obtained supporting documents for any individually significant adjustments greater than $10,000 made to reduce total revenues.

   Results: We noted no exceptions as a result of our procedures.

We selected four days from the daily Revenue Reports (9/12/03, 9/15/03, 9/17/03 and 9/23/03). We obtained the Admission Summaries and compared the actual cash received per summaries to the amount reported on the daily Revenue Reports.

Results: We noted no exceptions as a result of our procedures.

B. **Food and Beverage Sales** – We selected two individually significant cash receipts posted to the General Ledger Detail to determine if amounts were properly recorded as Fair revenues. We obtained details for the two concession deposits posted on 9/26/03 and 10/1/03. From the details of the deposit, we also agreed four of the individually significant amounts to cash receipt records and obtained concession contracts for vendors to ensure that the term of the occupancy is during the fair period.

Results: We noted no exceptions as a result of our procedures.

C. **Parking** – We selected four days from the daily Revenue Reports (9/12/03, 9/15/03, 9/17/03 and 9/23/03). We obtained the Parking Summaries and compared to the individual "Parking Salesman's Daily Report" (Daily Report) for significant cash received to the amount reported on the daily Revenue Reports.

Results: We noted no exception as a result of our procedures.

6. We obtained the General Ledger Detail dated January 1, 2003 through December 28, 2003 for the following accounts: Admissions (Department 30), Food & Beverage (Department 34), and Parking (Department 25). We compared the total revenues per the General Ledger Detail to the Association's Lease Calculation Schedule.

Results: We noted no exceptions as a result of our procedures.

7. For all adjustments identified on the Lease Calculation Schedule, we obtained the general ledger detail and cash receipt records, and reviewed the lease agreement to determine if adjustments made to gross revenues were allowable exclusions in accordance with the lease agreement.

Results: We found that adjustments were properly excluded and supported except for the following, which resulted in an additional amount due of $43,269.

	Amount Excluded by Association		
Department/Description	Fair	Non-Fair	
Admin/Sheraton land rent	$50,012	-	A
Sponsorship/Advertisement	-	24,000	B
Training/SCOTW, Inc.	-	1,247,947	C
	$50,012	1,271,947	

A. Amount excluded from gross revenues for the Sheraton land rent in the amount of $50,012 was properly excluded except that amount should have been excluded from the calculation of non-fair revenue, not fair revenue.

B. Per Article 3.07.a. of the Ground Lease and Operating Agreement, "advertisement or promotional considerations received in connection with the operation of the Fair" is excluded from the calculation of gross revenues. $24,000 of advertising revenue received during the non-fair time should not have been excluded in the Lease Calculation.

C. During the year under review, an agreement was entered between the Association and Southern California Off-Track Wagering, Inc. (SCOTW, Inc.) to reimburse Association for certain costs directly arising from the provision of off track stabling of thoroughbred race horses. $1,247,947 in reimbursements were received from SCOTW, Inc. during the year under review. The Association excluded these reimbursements in the calculation of gross rent. Per Article 3.07.a. of the Ground Lease and Operating Agreement, the "term 'gross revenues' shall mean and include any and all money…excepting only moneys or grants from governmental agencies given to Fair Association for specific purposes." We called SCOTW, Inc. to inquire as to whether or not the organization was a governmental agency.

   We were notified that SCOTW, Inc. is a not-for profit organization, not a governmental agency. Therefore, the $1,247,947 should not have been excluded from the calculation of gross rent as defined in Article 3.07.a. of the Ground Lease and Operating Agreement.

The additional amount due is calculated as follows:

	Revenue Amounts	Fair Revenue Rent		Non-Fair Revenue Rent		Amount Due County
Admin	$ 50,012	1%	500	3.5%	(1,750)	(1,250)
Sponsorship	24,000	1%	-	3.5%	840	840
Training	1,247,947	1%	-	3.5%	43,679	43,679
			$500		42,769	43,269

To summarize the effect of the above adjustments, we revised the Association's "Year to Date County Lease Calculation." This Auditor revised calculation is documented at Exhibit 2.

TESTING OF WEEKEND NET REVENUES

8. We obtained a copy of the First Amendment to the Ground Lease and Operating Agreement, dated January 28, 2000 between the Association and the County. In accordance with the Amendment, the Association is entitled to receive a credit against the rent in an amount equal to the lesser of $400,000, or a sum equal to the projected weekend event net revenue, less actual weekend event net revenue, realized by the Association. Per the work order, the projected event revenue for 2003 was $7,668,972. The actual weekend event revenue for 2003 reported by the Association was $5,187,972.

   We read the amendment to determine which events are to be included and excluded in weekend events net revenues for the calculation of the available rent credit. We obtained a copy of the Association's Summary of Weekend Event Net Revenue. This Summary was an eight page excel document that identified all weekend events that occurred during 2003. The total weekend event net revenue per the Summary was $5,187,972. We compared the events included in the calculation of weekend net revenues to a separate listing of actual weekend events held during 2003 and ascertained if all weekend events held were properly included and excluded.

   Results: We noted no exceptions as a result of our procedures.

9. From the Association's Summary of Weekend Event Net Revenue, we performed specific tests of selected events to ascertain whether the gross and net revenues included in the Summary were in agreement with the appropriate supporting documentation. Our specific tests are described as follows:

   A. We selected four weekend events held during 2003 (FMCA, RVIA, Winternationals and NHRA World Finals). We obtained the General Ledger Detail Reports for each event and compared the amounts reflected in the general ledger to the amounts reflected in the Association's Summary of Weekend Events Net Revenues.

   Results: We noted no exceptions to our procedures.

   B. We obtained the cash receipts and vendor invoices associated with two (Winternationals and NHRA World Finals) of the four events mentioned above. We traced the cash receipts and vendor invoices to the General Ledger Detail Reports to determine if all revenues and expenses were properly reflected in the general ledger.

   Results: We were unable to obtain invoices for expenses related to the Winternationals events because invoices have not been paid as of June 9, 2004 for Clean Event and Burrtec in the amounts of $25,000 and $4,562, respectively. Per inquiry with Dee Dee Wyatt, Staff Accountant of Events, amounts have been disputed with the vendors and will most likely not be paid since vendors did not do a thorough job in cleaning the event. The explanation provided appears reasonable. Also, the $29,562 of unpaid invoices will not have any bearing on the Association qualifying for the Rent Credit.

10. As stated in the First Amendment to the Ground Lease and Operating Agreement, dated January 28, 2000, Section 1(a), if Actual Weekend Net Revenues do not meet or exceed Projected Weekend Net Revenues for lease year of 2003, the Association is allowed to apply a rent credit to reduce the amount of rent owed to the County for the use of the fair property. The available credit is an amount equal to the lesser of $400,000 or a sum equal to the Projected Weekend Net Revenue less Actual Weekend Net Revenue realized by the Fair Association for the Lease Year in question. We recalculated the 2003 Weekend Event Revenue and the 2003 Rent Credit Schedules to determine if the rent credit was properly taken.

    Results: We noted no exceptions as a result of our procedures. The Association qualifies for the 2003 Rent Credit of $400,000. See Exhibit 3 for the calculation.

11. We obtained an understanding from the Staff Accountant - Events of methodology used to determine "Projected Weekend Event Net Revenues" and "Actual Weekend Event Net Revenues". We then ascertained whether Actual Weekend Event Net Revenue were "computed in a manner consistent in all respects with the calculation of Projected Weekend Event Net Revenues" as required per Section 15.19 of the agreement.

    Results: We noted no exceptions as a result of our procedures.

12. To arrive at a Weekend Event Net Revenue amount of $5,187,972, the Association excluded certain net revenue earned from "weekend" events that took place on a day other than Friday, Saturday, or Sunday. This is in accordance with the Amendment and was evidenced on the Summary of Weekend Event Net Revenue with a separate column, Week Day Exclusions. The total of this exclusion column was $1,600,780.

    We obtained the Weekend Events Actual Net Revenue Schedule and recalculated the amounts reflected in the Weekday Exclusions column to determine if the correct amount was properly excluded.

    Results: All exclusions were correctly calculated except for the following minor variances:

Weekend Event	Event Days	Amount per Weekend Events Actual Net Revenue Schedule	Amount per Recalculation	Variance
U.S. Airforce Band	Tuesday thru Wednesday	$ 211	422	211
National Scrapbooking	Friday thru Saturday	7,189	-	(7,189)
Nissan Titan Workshop	Wednesday thru Wednesday	18,727	23,408	4,682
	Totals	$26,127	23,831	(2,296)

The minor adjustments do not impact the Association qualifying for the available rent credit.

RENT PAYABLE TO COUNTY

13. We compared the total payment made to the total rent calculated by the Association for the period January 1, 2003 through December 31, 2003.

    Results: Our calculation of the 2003 rent owed to the County as of June 10, 2004 is as follows:

	Percentage per Agreement	Net Revenues	Rent
Fair revenue	1%	$25,052,452	250,525
Interim revenue	3.5%	13,126,900	459,442
Subtotal		$38,179,352	709,967
Less: Allowable credit			(400,000)
2003 Rent			309,967
Rent paid to the County on April 15, 2004			266,698
Rent owed to County as of June 10, 2004			$ 43,269

14. We obtained a copy of the check paid to the County and reviewed Article 3, Section 3.01 and 3.06 of the Agreement to ascertain that remittance was required to be submitted on or before May 1.

    Results: We noted no exceptions as a result of our procedures.

15. We determined if the additional amount due exceeded five percent (5%) of the total that should have been paid in accordance with Article 14.13c, paragraph 2, which states that "if additional amount due exceeds 5% of the total amount that should have been paid as determined…Fair Association shall pay the cost of the audit."

    Results: We noted that the additional amount due of $43,269 exceeded the 5% of the total that should have been paid as following:

Rent per Audit	$709,967
Percentage	5%
	$ 35,498

No adjustment has been made in this report for the Association to pay for the cost of the audit. This should be determined by the County of Los Angeles.

OTHER PROCEDURES

16. We obtained the Balance Sheet for the period ended December 30, 2003, the Advance Deposits schedule that tracks unearned income throughout the year and the General Ledger detail for the Unearned Income account. We compared the detail of the total amount of unearned income at December 31, 2003 to the Advance Deposits schedule and verified that amounts recorded in the unearned income account pertained to monies received in advance for future events.

    Results: We noted no exceptions as a result of our procedures.

17. To ensure that 2003 revenues were applied in a manner consistent with the prior year, we compared current year net revenues (fair and interim) to prior year net revenues. Our specific tests are described as follows:

    A. For fluctuations greater than $100,000 and 15%, we inquired with Association management as to the cause for such fluctuation.

    Results: The following line items had fluctuations that warranted an explanation from management:

	Net Current Year (2003)	Net Prior Year (2002)	Dollar Change	Present Change
Interim Revenue:				
Admin	$ 107,188	(77,865)	185,053	173%
Food and beverage	1,567,143	1,301,232	265,911	17%
Training	668,016	1,703,101	(1,035,085)	(155%)

Per our discussion with Hue Banh, Assistant Controller, the prior year had a loss of $77,865 in admin revenues due to the purchase of Barretts Equine Limited (Barretts) on June 30, 2002. Barretts was a limited partnership with the Association as a limited partner and Barretts Equine Sales as the general partner. Therefore, increase in the current year revenues was not due to unusually high revenues in the current year, but as a result of a one time transaction that occurred in the prior year.

Per our discussion with Anita Donaldson, Food and Beverage Supervisor, the increase in Food and beverage revenues was due to increase in sales. In addition, prices for certain items had increased from the prior year. For instance, beer prices had increased from $3.50 per glass to $5 per glass.

Per our discussion with Hue Banh, Assistant Controller, the decrease in training revenues was due to an agreement entered with Southern California Off-Track Wagering, Inc. to reimburse Association for certain costs directly arising from the provision of off track stabling of thoroughbred race horses. The agreement in the current year was written differently than the prior year and amount was excluded from revenues as previously discussed in item #7C above. If the amount were not excluded, total training revenues would have been $1,915,963 which would have been consistent with the prior year.

STATUS OF PRIOR COMMENTS

18. In the prior report for Lease Year 2002, we gained an understanding of the flow of transactions and collection procedures over certain Association's revenue sources. Through meetings with appropriate personnel, we ascertained the flow of information for the admissions and commercial/concessions revenue areas. For the current lease year, we inquired about any significant changes in Association's policies and procedures. In addition, we determined the status of our recommendations to have an individual in the Supervisory level not involved in the cash receipts process, maintain a log of pre-numbered receipts and that all receipts should be reconciled for any missing or out of sequence receipts. These recommendations would enhance controls to reduce or eliminate any individuals from issuing cash receipts, but not turning in the money.

    Results: Our recommendations from the prior report appear not to have been implemented as of the date of our inquiry, June 10, 2004. However, the Association is in the process of working with the various departments to set up a process as documented below in the management's response to corrective action.

    Management's Response Regarding Corrective Action Taken or Planned: "There are several departments at the Association that utilize pre-numbered cash receipts. We are working with these departments to set up a process where an employee not involved with the cash receipts process maintain a log of pre-numbered receipts and hold individuals accountable for the receipts assigned to them. The receipts will be reconciled monthly and any missing or out of sequence receipts will be investigated. Full implementation of this procedure should be complete within 30 days from June 9, 2004."

19. As a result of our procedures for Lease Year 2002, we had indicated that Association had an additional amount of rent due to the County in the amount of $25. We inquired the status of payment.

    Results: As of June 10, 2004, Association was not invoiced for the additional amount due as a result of our procedures performed for Lease Year 2002.

* * * * *

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the County and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

Conrad and Associates, L.L.P.

June 10, 2004

Los Angeles County Fair Association

Exhibit 1

Year to Date County Lease Calculation - December 2003

Prepared by the Association in April 2004

	Total Revenue	Fair Revenue	Less Revenue	Net Revenue	%	Fair Calc County Lease	Non Fair Revenue	Less Revenue	Net Revenue	%	Non-fair calc. County Lease	Total County Lease
admin	308,103.72	128,524.00	(113,264.04)	15,259.96	1.00%	152.60	179,579.72	(72,392.00)	107,187.72	3.5%	3,751.57	3,904.17
communication	480.00	-	-	-	1.00%	-	480.00	-	480.00	3.5%	16.80	16.80
facilities	206,080.04	-	-	-	1.00%	-	206,080.04	-	206,080.04	3.5%	7,212.80	7,212.80
parking	5,825,187.75	2,727,392.00	-	2,727,392.00	1.00%	27,273.92	3,097,795.75	-	3,097,795.75	3.5%	108,422.85	135,696.77
trams	55,861.63	-	-	-	1.00%	-	55,861.63	(55,861.63)	-	3.5%	-	-
admissions	6,285,303.48	6,285,303.48	-	6,285,303.48	1.00%	62,853.03	-	-	-	3.5%	-	62,853.03
cred/badge ctr	102,519.84	-	-	-	1.00%	-	102,519.84	-	102,519.84	3.5%	3,588.19	3,588.19
food & bev	5,078,474.00	3,511,331.00	-	3,511,331.00	1.00%	35,113.31	1,567,143.00	-	1,567,143.00	3.5%	54,850.01	89,963.32
fairview farms	42,272.00	33,218.00	-	33,218.00	1.00%	332.18	9,054.00	-	9,054.00	3.5%	316.89	649.07
exhibits	263,927.10	263,927.00	-	263,927.00	1.00%	2,639.27	0.10	-	0.10	3.5%	0.00	2,639.27
yr sales	2,754,143.38	-	-	-	1.00%	-	2,754,143.38	-	2,754,143.38	3.5%	96,395.02	96,395.02
fair sales	4,307,277.00	4,307,277.00	-	4,307,277.00	1.00%	43,072.77	-	-	-	3.5%	-	43,072.77
adv sales	2,427,689.00	2,416,510.00	-	2,416,510.00	1.00%	24,165.10	11,179.00	-	11,179.00	3.5%	391.27	24,556.37
freeway sign	184,702.00	-	-	-	1.00%	-	184,702.00	-	184,702.00	3.5%	6,464.57	6,464.57
sponsorship	1,638,021.00	1,614,021.00	(1,614,021.00)	-	1.00%	-	24,000.00	(24,000.00)	-	3.5%	-	-
grandstand	618,806.00	618,806.00	-	618,806.00	1.00%	6,188.06	-	-	-	3.5%	-	6,188.06
grounds ent	14,953.00	13,758.00	-	13,758.00	1.00%	137.58	1,195.00	-	1,195.00	3.5%	41.83	179.41
racing	4,638,835.83	4,638,836.00	-	4,638,836.00	1.00%	46,388.36	(0.17)	-	(0.17)	3.5%	(0.01)	46,388.35
itw	2,333,126.00	-	-	-	1.00%	-	2,333,126.00	-	2,333,126.00	3.5%	81,659.41	81,659.41
train	1,915,963.20	-	-	-	1.00%	-	1,915,963.20	(1,247,946.92)	668,016.28	3.5%	23,380.57	23,380.57
horse show	146,806.00	57,223.00	-	57,223.00	1.00%	572.23	89,583.00	-	89,583.00	3.5%	3,135.41	3,707.64
rv	1,772,719.42	227,199.00	(113,599.50)	113,599.50	1.00%	1,136.00	1,545,520.42	(772,760.21)	772,760.21	3.5%	27,046.61	28,182.60
	40,921,251.39	26,843,325.48	(1,840,884.54)	25,002,440.94		250,024.41	14,077,925.91	(2,172,960.76)	11,904,965.15		416,673.78	666,699.19

Los Angeles County Fair Association

Exhibit 2

Year to Date County Lease Calculation - December 2003

Revised schedule prepared by the Auditors in June 2004

	Total Revenue	Fair Revenue	Less Revenue	Net Revenue	%	Fair Calc County Lease	Non Fair Revenue	Less Revenue	Net Revenue	%	Non-fair calc. County Lease	Total County Lease
admin	308,103.72	128,524.00	(63,252.00)	65,272.00	1.00%	652.72	179,579.72	(122,404.00)	57,175.72	3.5%	2,001.15	2,653.87
communication	480.00	-	-	-	1.00%	-	480.00	-	480.00	3.5%	16.80	16.80
facilities	206,080.04	-	-	-	1.00%	-	206,080.04	-	206,080.04	3.5%	7,212.80	7,212.80
parking	5,825,187.75	2,727,392.00	-	2,727,392.00	1.00%	27,273.92	3,097,795.75	-	3,097,795.75	3.5%	108,422.85	135,696.77
trams	55,861.63	-	-	-	1.00%	-	55,861.63	(55,861.63)	-	3.5%	-	-
admissions	6,285,303.48	6,285,303.48	-	6,285,303.48	1.00%	62,853.03	-	-	-	3.5%	-	62,853.03
cred/badge ctr	102,519.84	-	-	-	1.00%	-	102,519.84	-	102,519.84	3.5%	3,588.19	3,588.19
food & bev	5,078,474.00	3,511,331.00	-	3,511,331.00	1.00%	35,113.31	1,567,143.00	-	1,567,143.00	3.5%	54,850.01	89,963.32
fairview farms	42,272.00	33,218.00	-	33,218.00	1.00%	332.18	9,054.00	-	9,054.00	3.5%	316.89	649.07
exhibits	263,927.10	263,927.00	-	263,927.00	1.00%	2,639.27	0.10	-	0.10	3.5%	0.00	2,639.27
yr sales	2,754,143.38	-	-	-	1.00%	-	2,754,143.38	-	2,754,143.38	3.5%	96,395.02	96,395.02
fair sales	4,307,277.00	4,307,277.00	-	4,307,277.00	1.00%	43,072.77	-	-	-	3.5%	-	43,072.77
adv sales	2,427,689.00	2,416,510.00	-	2,416,510.00	1.00%	24,165.10	11,179.00	-	11,179.00	3.5%	391.27	24,556.37
freeway sign	184,702.00	-	-	-	1.00%	-	184,702.00	-	184,702.00	3.5%	6,464.57	6,464.57
sponsorship	1,638,021.00	1,614,021.00	(1,614,021.00)	-	1.00%	-	24,000.00	-	24,000.00	3.5%	840.00	840.00
grandstand	618,806.00	618,806.00	-	618,806.00	1.00%	6,188.06	-	-	-	3.5%	-	6,188.06
grounds ent	14,953.00	13,758.00	-	13,758.00	1.00%	137.58	1,195.00	-	1,195.00	3.5%	41.83	179.41
racing	4,638,835.83	4,638,836.00	-	4,638,836.00	1.00%	46,388.36	(0.17)	-	(0.17)	3.5%	(0.01)	46,388.35
itw	2,333,126.00	-	-	-	1.00%	-	2,333,126.00	-	2,333,126.00	3.5%	81,659.41	81,659.41
train	1,915,963.20	-	-	-	1.00%	-	1,915,963.20	-	1,915,963.20	3.5%	67,058.71	67,058.71
horse show	146,806.00	57,223.00	-	57,223.00	1.00%	572.23	89,583.00	-	89,583.00	3.5%	3,135.41	3,707.64
rv	1,772,719.42	227,199.00	(113,599.50)	113,599.50	1.00%	1,136.00	1,545,520.42	(772,760.21)	772,760.21	3.5%	27,046.61	28,182.60
	40,921,251.39	26,843,325.48	(1,790,872.50)	25,052,452.98		250,524.53	14,077,925.91	(951,025.84)	13,126,900.07		459,441.50	709,967.03

Exhibit 3

Los Angeles County Fair Association
Lease Payable
For the Period Ended December 28, 2003

	GROSS REVENUE	RATE	RENT AMOUNT
FAIR REVENUE:			
Total Revenue	$ 26,843,325		
Excluded items:			
Sponsorship	(1,614,021)		
State Appropriation	(63,252)		
RV Part 50% pro rata share	(113,600)		
Adjusted gross fair revenue	25,052,452	1.0%	250,525
INTERIM REVENUE:			
Total interim revenue	14,077,926		
Excluded items:			
Land Rent - Sheraton	(50,012)		
Government payments	(72,392)		
RV Park 50% pro rata share	(772,760)		
Trams	(55,862)		
Adjusted gross interim revenue	13,126,900	3.5%	459,442
PARCEL 1 REVENUE	-	75.0%	-
TOTAL RENT AMOUNT			709,967
Credit (see Exhibit 4)			(400,000)
TOTAL RENT CALCULATED			309,967
Less Rent Paid on April 15, 2004			(266,698)
TOTAL RENT DUE (as of June 10, 2004)			$ 43,269

Exhibit 4

LOS ANGELES COUNTY FAIR ASSOCIATION

2003 Weekend Event Revenue

Year Round Event Facility Revenue	$ 2,755,084	
Weekend F&B Revenues	1,284,395	
Weekend Parking Revenues	3,071,894	
Weekday F&B, Parking and Service Exclusions	(1,923,401)	
Net Weekend Event Revenue		5,187,972
Total Actual Revenues		$ 5,187,972
Projected Revenues (including gun shows)		$ 7,668,972
Actual Revenues		5,187,972
Excess (Shortfall) from Projection		$ (2,481,000)
Available rent credit - Year 2003		$ 400,000

FAIRPLEX

January 13, 2005

Mr. Tyler McCauley
Auditor/Controller
County of Los Angeles
500 W. Temple St., Room 525
Los Angeles, Ca. 90012-2766

Subject: L.A. County Fair Association 2003 County Audit

Dear Mr. McCauley:

On behalf of the Los Angeles County Fair Association (the "Association"), this letter will respond to Item 7C in Conrad and Associates, L.L.P. audit report to the County of Los Angeles (the "County") as to rent payable by the Association to the County under the Ground Lease and Operating Agreement (the "Lease") for calendar 2003. Specifically, Conrad has questioned the position that $1,247,947 of reimbursements (the "Reimbursement") received by the Association from Southern California Off-Track Wagering, Inc ("SCOTW") for costs related to off-track stabling of thoroughbred race horses may not be excluded from gross revenues under Section 3.07a. of the Lease. We respectfully disagree.

Section 3.07a. of the Lease permits the exclusion from "gross revenues" of "moneys or grants from governmental agencies given to Fair Association for specific purposes." We read this exclusion as requiring that three elements be present for the exclusion to apply. As described below, we believe that all such elements are present with respect to the Reimbursement.

First, there must be "moneys or grants" given to the Association. A particular grant form is not required, and the characterization of the payment as a "reimbursement" is irrelevant for purposes of the exclusion. Moreover, the fact that the moneys were paid pursuant to a contract between SCOTW and the Association is of no consequence for purposes of the exclusion. We understand that Conrad agrees with the Association that this first element is present.

Second, the moneys must be given for "specific purposes." Here, the purpose is clearly identified as reimbursement for costs directly arising from provision of off-track stabling of thoroughbred racing horses. There appears to be no question that the funding is identified to a specific purpose, that the Association in fact provides this service to the thoroughbred horse racing industry and that the Association incurred expenses in providing this service which equaled or exceeded the amount of the Reimbursement. We understand that Conrad agrees with the Association that this second element is present.

Third, the moneys must be from "governmental agencies." Please note that the Section does not limit the exclusion to funds received from "governments" (i.e., federal, state or local governments). Rather, the more expansive term "governmental agencies" is used. The necessary inquiry, then, is whether SCOTW is a "governmental agency." As described below, we believe this inquiry should be answered in the affirmative.

While SCOTW is, as Conrad notes in their report, a non-profit California corporation, it is an entity specifically authorized by California statue, specifically Section 19607 of the Business and Professions Code. A copy of that Section is enclosed for your convenience. Moreover, the entity has a specific statutory purpose: "to administer . . . a fund to provide reimbursement for offsite stabling at board approved auxiliary training facilities." That fund is generated pursuant to the same statute by a governmental assessment against the revenues of off-track wagering facilities. In short, SCOTW is an entity authorized by the State of California to spend the proceeds of a state assessment to help support an activity deemed important by the legislature.

Further, it is clear that SCOTW does not operate on its own. Rather, it administers the fund "pursuant to supervision of the board" (i.e., the California Horse Racing Board) and reimbursements are limited to "board-approved auxiliary training facilities." In other words, while SCOTW is a separate legal entity, it functions only as permitted by the California Horse Racing Board, an arm of the State of California. Although the legislature chose to have a separate entity administer this governmental fund, it also chose to retain strict oversight of such administration.

As noted above, the term "governmental agency" rather then the term "government" was used in stating this exception to gross sales in Section 3.07 a. of the Lease. Since the narrower term "governmental body" is used two lines later in the same Section in stating the exclusion from gross sales for taxes collected by the Association, the necessary inference is that governmental agency was intended to encompass <u>more</u> than simply governmental bodies. While only governmental bodies assess and collect taxes, many agencies and other entities, whether or not a part of a government, make grants and otherwise dispense funds created from such governmental taxes and assessments. Thus, we believe that the intention expressed by the use of the term "governmental agencies" rather than the narrower term "governmental bodies" was to recognize, and to exclude from gross sales, monies received from any entity, such as SCOTW, performing a governmentally mandated distribution of funds created by a governmental assessment.

In summary, while SCOTW is a non-profit corporation , it is also a governmental agency for purposes of Section 3.07 a. of the Lease both by virtue of the language of that Section and the governmental mandate to SCOTW provided in Section 19607 of the Business and Professions Code. As a result, its Reimbursement to the Association is money from a governmental agency given to the Association for a specific purpose and should be excluded from gross revenues when calculating rent payable under the Lease.

Sincerely,

Michael D. Seder
Vice President and
Chief Financial Officer

Enclosure

Cc: Terri Kasman

19607. Notwithstanding Sections 19605.8 and 19605.9, when satellite wagering is conducted on thoroughbred races at associations or fairs in the central or southern zone, an amount not to exceed 1.25 percent of the total amount handled by all of those satellite wagering facilities shall be deducted from the funds otherwise allocated for distribution as commissions, purses, and owners' premiums and instead distributed to an organization formed and operated by thoroughbred racing associations, fairs conducting thoroughbred racing, and the organization representing thoroughbred horsemen and horsewomen, with each party having meaningful representation on the board of the organization, to administer, pursuant to supervision of the board, a fund to provide reimbursement for offsite stabling at board-approved auxiliary training facilities for additional stalls beyond the number of usable stalls the association or fair is required to make available and maintain pursuant to Section 19535, and for the vanning of starters from these additional stalls on racing days for thoroughbred horses.